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Greg Anderson
The LGL Group, Inc.
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Operator: Good morning, everyone, and welcome to The LGL Group Q3 2011 earnings report. At this time, all participants are in a listen-only mode. Later, you'll have the opportunity to ask questions during the question and answer session. You may register to ask a question at any time by pressing the star and one on your touchtone phone. You may withdraw yourself from the queue by pressing the pound key. This call also has a visual PowerPoint component in addition to the conference call. To view the PowerPoint, please click on the "Join the meeting" link you received in your invitation and included in the press release announcing today's call. If you need assistance during the presentation, please press star/zero on the touchtone phone and an operator will assist you. I will be standing by if you should need any assistance. It is now my pleasure to turn the conference over to the company's Chief Accounting Officer, Mr. LaDuane Clifton. Please, go ahead.

LaDuane C.: Good morning and thank you for joining the call today. With me is our President and CEO, Mr. Greg Anderson. Before we get started today, we've prepared a slide presentation for your reference that may be viewed as part of today's web conference. The presentation materials are also available from our website at lglgroup.com. We ask that you locate these and use them as a guide for today's call. This call will be recorded and will be available for playback later today on our website as well. Other financial information, recent press releases are also posted there; and I'll also let you know that today's comments are covered by the Safe Harbor statement. If any time you need assistance during the call on web conference, please press star/zero for the operator. At this time, I'll turn it over to Greg Anderson.

Greg Anderson: Thank you, LaDuane. Good morning, everyone, and welcome to our third quarter earnings call. The agenda for today's call is – first off, covers some business highlights. I'll give you an update on our financial status; again, what updates we can share in our strategic growth initiatives, obviously, take time for your questions and so we'll get started. In the business highlights section, like many others, clearly our business is cycling down. We don't like that, but that's the nature of our company at present and so we're with that cycle. We did record a weak book-to-bill for the third quarter and really both the telecom and the MISA markets show that kind of weakness. You'll recall previous telecom had really had a very positive book-to-bill on the first half of this year, but again it slowed as well in the third quarter and a number of macroeconomic factors have impacted the near-term outlook. We can go through those, but I think if you're reading the world economics these days, we're all a part of that; and the result of our weak book-to-bill, we did have our backlogs dropped to just over $9 million. Revenues for the third quarter were $9.6 million, down notably from a year ago. From a margin and income earnings per share perspective, gross margins were at 28%. Margins really eroded mostly by just mixing as well as spreading those fixed infrastructure costs in the cost of sales line of overall a larger revenue base; so as the revenues go down, we're more at risk for margins to track. Net income and pretax earnings of $90,000.00, earnings per share of $0.03, and we did have an EBITDA of $353,000.00 for the quarter. From a market dynamics perspective, our customer positions do remain strong and we do have a healthy level of new activity. One of our largest customers we've shared in the past is Cisco and they had favorable earnings released last night. So, I mean we're hopeful and optimistic that as their business recovers, we'll participate in that as well. Our outlook for near-term orders, we're hopeful that regains as we look into the – starting the new year stronger than we're finishing ‘011. In our OEM customers, they’re reporting mixed market conditions. Many of the major electronic manufacturing services companies, they’re also reporting softer near-term outlooks; and the semi-conductor itself industry across its various sectors are fairly conservative as well as we look into the fourth quarter. They are talking about some turnaround in 2012 and returning to growth. Financial highlights. This slide is the picture of quarterly performance that goes back nearly three years. As I’ve stated previously, we have revenues of $9.6, gross margin of 28%, and positive EBITDA at 3.5%. That is eight consecutive quarters of earnings, so we’re proud of that fact. Again, the decline in revenue really drove our margins and our EBITDA performance. I mentioned that with the weak book-to-bill, our order backlogs declined notably as well; they’re just over $9 million. So, if you looked back in the history, we’re probably cycling similar to what we did in early 2009. At this point, we’ve felt the effects of the cycle in both telecom and MISA. Our capital position at the end of the quarter remains strong. We’ve got assets of just under $34 million, working capital of $19, cash and cash equivalents of about just under $14 million. We did exercise our line of credit at Chase. We’ve brought them on and they brought us on at the end of June, and we chose to test that in this quarter, and so we actually have debt now of $3.8 million and we have an available line of credit of just under [$2.5 million] remaining open. Slide twelve is just the GAAP and non-GAAP reconciliation, and that’s for your information. As we move in and look at our strategic initiatives, we’ve talked about those a number of times. It’s hard to provide a great deal of information, because most of it is obviously not in the public domain as we’ve put these efforts in place, but I really want to speak to the organic investment piece. We’ve talked a number of times. Right now, our engineering and sales is very focused on the wireless infrastructure piece. We are bidding and hopefully winning a number of new contracts in this area, certainly doing a fair amount of engineering. So, just to give you a feel for the size of that market, we believe that that's up to $20 million that we can participate in nicely. Microwave radio backhaul, if you follow the industry at all, especially in the telecom piece, a backhaul is a critical bottleneck; 4G and LTE opened up the front-end, how to move that information from the wireless into dropping it to fiber is going to require a fair amount of radio as it being the most economic method for moving that information. Again, we believe that market for us is about $10 million and our engineering efforts and sales efforts are very focused in that area as well. Software-defined radios have been around a long time. We are actively engineering that in the past. It's been an engineering effort that's been defined today. We are certainly in the development mode and we are trying to bring that product to our customers in the first part of 2012. Under joint ventures, we continue to spend time working on what we call GPS field modules. It's nicely in the bulk of our markets. The most – yes, we're spending a great deal of time on M&A. So, we still think that synergistic acquisition is the way to thoughtfully grow this company. A number of times we've shared the market [as] [unintelligible] a number of large players and then, frankly, just a wide number of – it's very fragmented and a wide number of smaller players that we think would fit nicely into our company structure. So, we have a strong balance sheet, we're opportunistic that maybe as the cycle is down, it's a good time to execute on those M&A opportunities. In addition, I would like to mention that in this quarter, we brought on a gentleman by the name of Raj Das. Raj is the Director of Business Development for LGL, works for myself. He's got a strong banking background with M&A in his previous professional experience. He previously assisted management as well as this board a couple of years ago, so he's quite familiar with the company and the industry, and we're glad that Raj has, we'll call it, joined our strategic team as we move to execute on somebody's ventures. He brings a great deal of experience and energy, and we're hopeful that that allows us to make some good strides in that area. Not a lot of activity in greenfield opportunities. So at this time, I would ask the operator to open up for questions.

Operator: At this time, if you would like to ask a question, please press the star and one on your touchtone telephone. You may withdraw your question at any time by pressing the pound key. Once again, to ask a question, please press star and one on your touchtone phone. We'll take our first question from the side of Krishna Shankar. Please, go ahead.

Krishna S.: Yes, Greg and LaDuane, just a couple of questions; as you mentioned, Cisco showing some improving trends in the yearend business, do you think that given the improved outlook at Cisco and inventory work done among your customer base, both in EMS and OEM, do you think that the September quarter [set up] potentially the bottom in terms of your backlog and revenues, and would you expect to see some growth in the December quarter in terms of the top-line and backlog or should we be looking more at the first quarter of 2012?

Greg Anderson: It's all speculative, Krishna, but I'll try and speak to that first. Cisco is our largest customer. I don't mind sharing that, so that's a fact that we've shared previous, like when I was out to the supplier conference, that's probably been six weeks ago, they were talking about revenue growth, I think, for their next year of 7%. So, clearly, it's showing some rebound or growth on their behalf. We do expect to participate in that. Now, as far as when will we see our orders rebound, I would like to say that a new order perspective, Q3 was the low point. I'm not sure I'm at a position where I can commit to that today, but I'd like to think that as we look into next year, we should be gaining from a book-to-bill perspective. I can honestly say our customer positions are strong up and down the line, whether it's telecom or MISA, and as those companies turn around and look more positively and favorably, we should regain our strength. We're in a cyclical industry; we're obviously cycling down right now. We're not happy about that. The best thing that we can do, frankly, is take care of those customer positions, grow our new design opportunities with them, and then participate again in the upside when they rebound.

Krishna S.: Would you expect repeat opportunities to lead the recovery and revenue or some of these new initiatives in 4G, LTE, and microwave backhaul?

Greg Anderson: Well, I would say at this point, we've got an awful lot of repeat order business that should come back. In some cases, we're sole source, so it has to come back. When they get to buying again, the people are buying here, we'll participate in that. I will say that as we look into the wireless infrastructure piece, that could be a nice upside for us in 2012. I can't speak to that today. Frankly, we're just receiving some feedback in the next week or so on some of those contracts. We do expect it to be favorable; that's what the early news is and so we should see some nice revenue growth in that area and really, we're pretty well structured, from a cost and service perspective, to continue with that kind of growth, at least that's our hope for the next couple of years. We think we're in a strong position to gain share and participate in that growth.

Krishna S.: What about the filter market where you feel you've been underrepresented compared to timing and frequency control? What are your initiatives in the filter systems and module market?

Greg Anderson: While I mentioned a fair amount on the soft – I mentioned the software-defined radio piece. So, we have a number of our OEMs that have approached us directly to participate in that market. It's clearly on their tech road map; it's on our tech road map. Without being specific about the customers, comfortably, we can see a $10 million market there near-term that we don't participate in today. We see revenue in 2012; that is our plan, probably not a large amount but certainly as we get positioned, [actively know them all], Krishna. [I think] that's probably the largest filter engineering effort that we have underway.

Krishna S.: Terrific. The final question; LaDuane, can you talk to the cash position on the balance sheet? Do you expect that to sort of stabilize at these levels or would there be a little bit more of a drain in Q4?

LaDuane C.: I think that our cash flow from operations is going to flow somewhat from our top-line, so as we look ahead, I think that that's reasonable to think that it may drain slightly, but I believe that we're running at our lowest cost structure today, or actually our domestic headcount is at its lowest point in the last several years, maybe ever, and so we're actually being very vigilant to make sure we maximize cash from ops. So, I'd say that we're probably going to see modest amount, but really we're in very good shape, capital-wise.

Krishna S.: Thank you.

Operator: As a reminder, it's star/one to ask a question. We'll take our next question from the side of Hendi Susanto. Please, go ahead.

James Clarke: Hi, this is James Clarke. I'm actually filling in for Hindi. You said you're targeting 3G, 4G, LTE networks?

Greg Anderson: Yes.

James Clarke: Could you comment a little bit on specific products and what the current exposure is like in that area?

Greg Anderson: Well, they are timing devices and they're a family of products called OCXOs. So, when you're putting in cell base stations or radio systems to support that, they all require a very specific timing device. Now, we've obviously got some design wins with some of the leaders in that industry, without naming names, and we have had some participation in 2011. We have won some contracts there and we're just looking to, frankly, grow in that area, and so our customer is giving us a chance to grow and that's our business intent is to participate in that.

James Clarke: Then some of the other companies in your space have reported that they're seeing distributors cutting down inventory sharper than sell through. Have you guys been seeing somewhat of a trend?

Greg Anderson: I'd have to say yes; that has to be inventory corrections. For an awful lot of projects, especially telecom, there's an entire contract manufacturing cycle in-between, right? The electronic manufacturing services folks, they had a dynamic to the order pattern that has certainly got their perspective of inventory levels, management; all those kinds of things. So, I believe that that has contributed to this third quarter new orders performance, and then as the markets loosen up, I mean eventually you have to buy and we have to cycle up. You saw Cisco's results; that wasn't a mistake. They're obviously continuing to grow and outperforming from where they thought they were even 90 days ago.

James Clarke: Okay. Thanks, guys.

Operator: There appears to be no further questions at this time.

Greg Anderson: Well, in closing, thanks for joining our call. Yes, our business is cycling down. I want to reiterate what LaDuane had previously stated. We've been at these revenue levels before. We are at our lowest cost structure to date. So, we've been proactive in managing our costs coming into this cycle. Our customer positions, they remain strong. We do expect them to come back and replenish their buying patterns. We've got a much stronger balance sheet than we've ever had, frankly, so for this down cycle, we believe we're in a good position to weather it well and we remain optimistic around our strategic initiatives, especially in the M&A area. We believe that there are some good opportunities out there and we continued to – I'll call them – pursue those and hope to execute on those. So, for instance, we don't like the downturn, but frankly, our outlook is positive from how we've got the company structured to have a number of initiatives that we haven't placed to turn it back positive. Again, thank you for joining our call.

Operator: This ends The LGL Group's Q3 2011 earnings report call. If you have any further questions, please send an e-mail to Greg Anderson at ganderson@lglgroup.com or to LaDuane Clifton at lclifton@lglgroup.com. You may now disconnect.

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